

## **OFFICE OF THE CHIEF FINANCIAL OFFICER**

Statement of Patricia E. Healy  
Acting Chief Financial Officer  
United States Department of Agriculture

Before the Subcommittee on Agriculture, Rural Development,  
Food and Drug Administration, and Related Agencies

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2006 budget request for the United States Department of Agriculture (USDA), Office of the Chief Financial Officer (OCFO) and the Department's Working Capital Fund (WCF).

My remarks today address:

- Results we have achieved recently;
- Results on which we are currently focused;
- Our Fiscal Year 2006 Budget Request; and
- The Department of Agriculture's Working Capital Fund.

The Office of the Chief Financial Officer is responsible for the financial leadership of an enterprise, which if it were in the private sector would be one of the largest companies in the United States with almost \$95 billion in annual spending, almost 111,000 full time equivalents (Staff Years) and \$128 billion in assets.

These responsibilities are fulfilled by a headquarters staff in Washington, D.C., with accounting operations support provided by USDA's Controller Operations Division in New Orleans, Louisiana.

The National Finance Center (NFC), also located in New Orleans, provides payroll processing and related services for approximately 27 percent of the Federal civilian workforce in more than 130 government entities. In fiscal year 2004, the National Finance Center processed \$26 billion in bi-weekly payroll for more than 500,000 Federal employees. In addition, NFC provides call center operations for the government-wide Thrift Savings Plan. NFC also provides eAuthentication services for Federal agencies for secure government-to-government transactions.

## **I. Results Achieved Recently**

In FY 2004, OCFO continued to make substantial progress in improving financial management, financial information, and financial/corporate systems throughout USDA. OCFO also actively worked on government-wide financial management issues affecting USDA to ensure we could achieve substantive and sustainable results. Some of the significant results USDA achieved in financial management, financial systems and related areas in FY 2004 include:

- Sustained an unqualified "clean" opinion on the FY 2004 consolidated financial statements. USDA had its first clean opinion in FY 2002 and has sustained the opinion for 3 years. An unqualified opinion indicates that the balances in the financial statements are free of significant errors or misstatements. In sustaining the clean opinion for the third year, USDA and its agencies continued to make significant improvements to ongoing business operations that

enhanced internal controls and improved the quality of financial data for use by USDA executives and program managers;

- Met OMB interim and year-end accelerated deadlines for preparing the financial statements. Year-end statements were provided 45 days after the close of the fiscal year, that is, by November 15th. USDA met these ambitious dates while sustaining data quality and provided USDA executives and program managers with financial results information more timely than ever before;
- Reduced existing material internal control weaknesses from 32, three years ago, to 1 existing deficiency at the end of FY 2004. Although two new material weaknesses were reported in the FY 2004 Performance and Accountability Report, for a total of three remaining for fiscal year 2005, we continue to aggressively work to resolve the underlying internal control issues. We expect to have no material weaknesses by the end of FY 2005;
- Dramatically improved quality assurance of financial data by continuing to focus on fixing “root causes” of data flow and accuracy problems. Regularly monitored a set of metrics to ensure data is timely and accurate and useful to USDA managers;
- Implemented salary offset for USDA employees who do not pay their travel card debt on time. FY 2004 collections totaled \$320,000;
- Developed a property system to standardize real property accounting and business processes. This provides an efficient and effective tool to manage USDA’s entire real property portfolio, including owned, commercial leases and GSA assignments;

- Contracted with an outside vendor to provide eTravel systems and services for USDA;
- Implemented the real-time interface between the financial system and procurement system, integrating the financial and procurement systems for the first time and enhancing internal funds control and streamlining operations;
- Converted to a web-based purchase card system to facilitate the recordation and reconciliation of purchases made using the credit card;
- Enhanced the data warehouse reporting to provide more timely and useable financial and performance information to USDA executives and managers to manage daily operations;
- The National Finance Center (NFC) continued its leadership as a provider of payroll services by processing \$26 billion in bi-weekly payroll for more than 500,000 Federal employees. As one of four ePayroll providers to the Federal government, NFC continued to implement new customers into ePayroll.
- NFC was selected competitively as the sole provider of eAuthentication or Public Key Infrastructure (PKI) services for government-to government transactions. For this initiative, NFC won the President's Quality Award, the highest recognition bestowed by the Federal government to Federal agencies for management excellence. The award was bestowed in the

category *e-Government Innovative and Exemplary Practices*.

- The Office of Personnel Management selected NFC as having the best alternative disputes resolution program in the Federal sector.

In addition to the above, during FY 2004, USDA collected \$1.1 billion of delinquent debt, \$885 million through agencies using our internal tools and \$215 million through the Department of Treasury Administrative Offset Program and other Debt Collection Improvement Act (DCIA) techniques. Since 1996, annual collections of delinquent USDA debt using DCIA tools have increased more than 240 percent from \$63.2 million in FY 1996 to \$215 million in FY 2004. As of September 30, 2004, USDA had referred to the Treasury Offset Program 98 percent of the \$1.6 billion of eligible receivables and 96 percent of loans eligible for cross-servicing compared to only 14 percent in 2001. Separately, \$805 million was reported to the Internal Revenue Service on 1099-Cs for inclusion in the debtors' taxable income during the past five tax quarters.

## **II. Results on Which We Are Currently Focused**

We continue to be focused on delivering valuable results in FY 2005 as a context for consideration of our fiscal year 2006 budget request. Three areas of focus are: Internal Control and Management Information; the National Finance Center; and the President's Management Agenda.

In the area of Internal Control and Management Information, we are committed to:

- Continuing to enhance USDA's system of internal control and data integrity as reflected in sustaining in FY 2005 USDA's unqualified "clean" opinions on the consolidated financial statements and component agency financial statements;
- Meeting OMB's interim and year-end deadlines for financial statement and Performance and Accountability reporting;
- Eliminating all material weaknesses in internal controls and systems non-conformances with the requirements of the Federal Financial Management Improvement Act (FFMIA);
- Continuing to develop financial management and accounting operations leadership talent in depth throughout all our agencies so as to enhance further USDA's culture of sound financial management and to sustain management results already achieved;
- Expanding the use of data warehousing to improve the data integrity and timely availability of financial and performance information to USDA's executives and managers for the management of their daily operations.

At the National Finance Center, we are focused on:

- Structuring a Human Resources Line of Business (HR LoB) venture for the National Finance

Center while continuing to implement new customers into ePayroll. The HR LoB will provide a new business growth opportunity for NFC in providing human resources systems and services to all civilian Federal agencies;

- Continuing to increase customers by expanding eAuthentication services at NFC through a public key infrastructure system (PKI). NFC provides PKI services for trusted, secured government-to-government electronic transactions. PKI is an important global competitive advantage in the conduct of electronic commerce. NFC is actively working with Federal agencies to implement PKI throughout the government;
- Continuing to reduce operational risk through continuous improvement of and practice in recovery operations for NFC and accounting operations.

In the area of the President's Management Agenda (PMA), we are:

- Implementing the eTravel initiative throughout USDA to consolidate travel processes at the Department level and centrally manage them through a customer-centric, self-service, Web-based environment providing end-to-end travel services;
- Adding personal property to the Corporate Property Automated Information System (CPAIS). CPAIS was implemented in FY 2004 and currently tracks all USDA real property whether owned or leased. Including personal property in CPAIS will allow USDA, in one place, to

have a full view and accounting of our property assets;

- Taking aggressive action to implement the Improper Payments Information Act (IPIA), P.L. 107-300. We set a goal of achieving “green” status for IPIA to reflect its departmental priority. To achieve this goal, we strengthened guidance to agencies requiring detailed plans with key milestones and quality deliverables. We are monitoring accomplishments through monthly workgroup meetings, assessment of deliverables, evaluation of risk assessments, and agency scorecards for executives and managers.
- Substantially improving the execution of the Competitive Sourcing Initiative by issuing internal guidance to ensure that feasibility analysis, including cost-benefit analysis, is performed before activities are scheduled for competition. OCFO is monitoring performance by conducting routine progress reviews. During FY 2004, USDA completed 16 competitive sourcing studies on 1,487 full-time equivalent positions. The estimated gross savings is \$179.2 million over a five-year period with annualized savings of \$35.8 million.

### **III. Fiscal Year 2006 Budget Request**

I would like to thank the Committee for your confidence in entrusting us with the basic resources required to provide stewardship over USDA financial processes. USDA's excellent results in sustaining and enhancing financial accountability in FY 2004 were only possible because of your support. I would now like to focus on our fiscal year 2006 operating budget request, which is for \$5,874,000, an increase of \$178,000 or 3.1 percent more than the fiscal year 2005 budget of \$5,696,000. Approximately 90 percent of the Office of the Chief Financial Officer's current obligations are for the salaries and benefits of the OCFO. This increase request of \$178,000 is to fund pay costs. The pay related increases requested are necessary for us to accomplish key outcomes and to successfully meet our goals for FY 2006.

### **IV. USDA Working Capital Fund**

The Working Capital Fund (WCF) continues to be the investment engine that propels our progress in developing and implementing new corporate systems. Last year, we again made use of authority granted to us by the Committee in the appropriations language to use unobligated balances as part of this developmental effort. In 2004, our plan for use of these resources was reviewed by Congress and executed to continue our progress in implementing financial data warehouses, enterprise certification and accreditation of information technology systems, an enterprise human resources system, and an enterprise civil rights complaint tracking system. In 2005, we have submitted a plan to Congress to obligate funds in pursuit of further efforts in development of an integrated procurement system and an enterprise human resources system. We are also evaluating the possibility of embarking on development of a budget and performance integration (BPI) system in support of the PMA BPI initiative. We are grateful for the support and look forward to working with the Committee as our efforts to improve corporate

systems proceed.

In addition to the investments in corporate systems, the WCF supports services in the areas of financial management, information technology, communications, administration, as well as record-keeping and item processing. As part of this suite of services, the WCF obtained approval from the Office of Management and Budget to serve as the financing mechanism for the new activity, Information Technology Services. This activity, administered by the Office of the Chief Information Officer, incorporates the information technology infrastructure roles of the Farm Service Agency, the Natural Resources Conservation Service and Rural Development mission area. It is a fee-for-service activity, which will strive to provide quality IT infrastructure support to its customers with an emphasis on customer service and striving for efficiencies through management and technology.

The President's FY 2006 budget estimates that total operating costs for the WCF in fiscal year 2006 will be \$534.7 million – net of intrafund transfers between WCF activities – a \$40.9 million increase, or 8.3 percent over the fiscal year 2005 estimate. Costs to USDA agencies will increase more slowly, about 6.3 percent from fiscal year 2005 to fiscal year 2006.

The increases in cost estimates reflect the fact that the WCF recovers costs on the basis of user demand for services with the objective of lowering total costs through centrally-managed services. Historically, the largest of the USDA-wide services has been the National Finance Center. However, its menu of services has been changing to reflect the changing needs of customers both inside and outside USDA. Information Technology Services will be the largest

WCF activity in terms of cost in FY 2006. Examples of other services supported by the WCF include mainframe computing and information technology services at the National Information Technology Center in the Office of the Chief Information Officer, and video and teleconferencing production services provided by the Broadcast and Media Technology Center in the Office of Communications. Departmental Administration provides a wide variety of personal property, mail, and duplicating services to USDA and non-USDA customers. Among the corporate systems activities supported by the WCF include: Corporate Financial Management Systems and Integrated Procurement Systems. The source of funds for these investments in systems includes direct billings, purchase card rebates, and the use of unobligated balances.

I would like to point out that the WCF financing mechanism, as a reimbursement for goods and services provided, gives us an opportunity to refine our estimates as newer and better information becomes available regarding customer demand and costs. Our office is currently engaged in reviewing FY 2006 estimates with the goal of reducing estimates wherever possible in costs for core services to USDA agencies. As we begin development of the FY 2007 budget this spring, we will be reexamining FY 2006 estimates. Our first step in that process will be to establish spending targets for WCF activities that take into account the Department's spending priorities among its agencies reflected in the President's budget. We will be increasing our efforts to find ways to bring FY 2006 costs down to or below the FY 2005 estimates reflected in the President's FY 2006 budget.

Thank you, Mr. Chairman, for the opportunity to share the results we have achieved and our FY

2006 budget request with the Committee. We especially look forward to working together with you and the Committee in fulfilling the vision for financial management we all have for the United States Department of Agriculture.